BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

Barbara Beerhalter	Chair
Cynthia A. Kitlinski	Commissioner
Norma McKanna	Commissioner
Robert J. O'Keefe	Commissioner
Darrel L. Peterson	Commissioner

In the Matter of the Petition of Western Gas Utilities, Inc. to Decrease its Level of Contract Demand by 149 Mcf

ISSUE DATE: August 9, 1988

DOCKET NO. G-012/M-87-847

ORDER REQUIRING FILINGS AND AUTHORIZING REFUNDS

PROCEDURAL HISTORY

On May 16, 1988, the Minnesota Public Utilities Commission (the Commission) issued its ORDER REJECTING FILING AND INITIATING INVESTIGATION in this matter. The Commission denied Western Gas Utilities Inc.'s (Western or the Company) request to decrease its firm gas supply from Northern Natural Gas Company (Northern) by 149 Mcf and ordered the Department of Public Service (DPS or the Department) to investigate Western's firm gas supply purchasing practices. The Commission was concerned that Western would have an inadequate supply of gas to serve its firm customers and that those customers would have to pay rates that were unreasonably high if the Company had to supplement its gas supply with higher-cost peaking gas.

On July 15, 1988, the Department filed its Report of Investigation and Recommendation. The Report stated that Western's gas supply arrangement for the 1987-1988 heating season put the Company's firm customers at risk of either paying too much for gas or suffering an interruption of utility service.
The Report also said that Western overcollected $39,838 in its Purchased Gas Adjustment (PGA) due to calculation errors and $2,543 due to savings from purchasing gas from US Gas Company (USG).

The Department recommended that the Commission require Western to file monthly progress reports of its efforts to negotiate firm supply arrangements with USG. The DPS also recommended that Western refund $42,381 to its customers, the sum of the $39,838 PGA overcollection and the $2,543 gas cost savings.

FINDINGS AND CONCLUSIONS

The Commission must decide how to ensure that Western's customers have adequate service at reasonable rates. In addition, the Commission must decide what refunds are due the Company's customers and how those refunds should be made.

Minn. Stat. Sec. 216B.04 (1986) requires utilities to provide "safe, adequate, efficient, and reasonable service." The law also requires that the rates for utility service be just and reasonable. Minn. Stat. Sec. 216B.03 (1986).

A variety of gas supply options is available to gas distribution utilities. They may purchase from their traditional pipeline suppliers (e.g. Northern), or from other sellers. Further, a single supplier may offer several alternative types of service, including firm, interruptible, emergency, and authorized overrun. Services offered may vary by season of the year as well.

Northern's CD-1 demand units entitle the utility to purchase the specified volume of gas each and any day of the year. Looked at another way, they require Northern to provide that volume of gas whenever the utility wants it. Demand units purchased from Northern on other rate schedules also provide entitlements to purchase the specified volume of gas on the affected days.

Utilities purchase demand units to assure that firm customers will receive uninterrupted service. Interruptible gas supplies are often also available, usually at lower prices. Because interruptible service may be curtailed by the supplier, it is generally purchased only for the benefit of interruptible customers. Such customers have both an alternative energy source and the equipment to utilize it standing ready in case their supply of gas is interrupted.

The Commission considered three factors in analyzing the adequacy of the Company's planning for the 1987-88 heating season: the increase in the number of firm customers, the drop in entitlement of CD-1 gas from Northern, and the Company's design day requirement.

The number of Western's firm customers increased from 1,819 in August, 1987 to 1,983 in January, 1988. All other things equal, more firm gas would be required to serve the increased number of customers in 1988. Conservation efforts could reduce the volume of gas required per customer, but it is unlikely that the conservation reduction would match or exceed the volumes needed to serve the new customers.

A design day is a 24-hour period of demand which is used as a basis for planning gas capacity and supply requirements. Normally, a gas distributor will use as its design day the coldest 24-hour period it believes it may encounter. It then sizes itself to meet the needs of its firm customers (interruptibles will be curtailed) during the design day. If it miscalculates the design day, the distributor might be caught with too little gas. Although it might be able to purchase additional supplies, it would not necessarily be able to do so. Furthermore, if it does locate additional supplies, the emergency nature of its need for them might make them significantly more expensive than other supplies.

Western reported its design day requirement as 2,096 Mcf (thousand cubic feet). Although the Commission cannot be certain, based upon the information available, this is unrealistically low. The Company peaked several times above this number in the 1985-86 heating season. It did so at least once in the 1986-87 heating season. While it is uncertain whether interruptible customers were being served during these peaks (due to availability of interruptible gas supplies and excess delivery capacity), it appears that 2,096 Mcf may have been inadequate to provide firm quality service even to the smaller number of firm customers Western had during the 1985-86 heating season. It was almost certainly inadequate to serve the 1987-88 firm load.

Finally, in December, 1987, Western turned back 149 Mcf of CD-1 entitlements to Northern without making arrangements to replace the firm supplies and without obtaining the Commission's approval. The Company did this despite the fact that its entitlements before turning back the 149 Mcf were below its calculation of its design day requirements.

The Commission finds that, in light of customer growth and recent relatively warm winters, the Company's design day planning was inadequate. This inadequacy was compounded by the return of 149 Mcf per day of firm entitlements.

The Commission concludes that Western put its firm customers at unreasonable risk by using interruptible supplies to serve firm customer's needs during the 1987-1988 heating season. The Commission is concerned that Western may again put its firm customers at risk in the upcoming heating season. The DPS indicated that Western has been working on replacing the 149 Mcf firm supplies for the upcoming heating season. However, it has not yet contracted for that firm supply.

In order to meet its responsibilities to ensure that Minnesota ratepayers have adequate utility service at reasonable rates, the Commission will require Western to file monthly progress reports on its efforts to negotiate firm supply arrangements with USG or any other gas supplier. Those reports should address the following:

1. the number and location of customers expected to be served;

2. forecasts of demand by these customers;

3. levels and types of firm service volumes;

4. rates for service;

5. discussions of contractual arrangements to assure that the firm gas will be delivered reliably;

6. contract lengths; and

7. other characteristics of the arrangement.

Regarding refunds due to Western's customers, the Commission finds that Western charged its customers Northern's commodity rates for the 1987-1988 heating season, even though it purchased some supplies from USG. USG's commodity rates have generally been lower than those of Northern, therefore, customers were charged a higher price for gas service than was justified by its cost. The Commission finds that from December, 1987 to April, 1988, firm customers paid $2,543 more than what was justified by the cost of gas. The Commission concludes that these customers should not be required to pay for higher-priced gas service which has not been authorized by the Commission and will require the Company to refund the $2,543 difference to its customers.

Finally, in its Report the Department identified two PGA calculation errors which led to Western overcollecting $39,838.
The Company made errors in calculating the annual demand sales volume. The Company does not dispute the DPS report or the accuracy of its numbers.

The Commission agrees that Western's firm and interruptible customers have been overcharged $39,838 and are entitled to refunds. The Commission recognizes that requiring Western to immediately refund the amounts described above which total $42,381 could cause cash-flow shock to the Company. Therefore, the Commission will allow Western to refund the money over seven months, the same length of time as the overcollection period, but will require interest at the prime rate on unrefunded amounts.

ORDER

1. Western Gas Utilities, Inc. shall file with the Commission monthly progress reports of its efforts to negotiate firm supply arrangements with USG or any other supplier as described above. The first report shall be filed one month from the issue date of this Order.

2. Western Gas Utilities, Inc. shall refund $42,381 to its customers over a seven month period accruing interest at the prime rate on unrefunded amounts. The Company shall file a refund plan with the Commission within 30 days of the issue date of this Order.

3. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Mary Ellen Hennen
Executive Secretary

(S E A L)